

Financial Services Subcommittee on Financial Institutions and Consumer Credit
Hearing "Overdraft Protection: Fair Practices for Consumers"
Opening Statement of Congresswoman Julia Carson
July 11, 2007

Thank you, Chairwoman Maloney and Ranking Member Gillmor for holding this important hearing today on financial institutions' overdraft protection loan practices.

The center for responsible lending released a report today that estimates account holders paid more than \$17.5 billion in overdraft loan fees last year. Further, the report noted that these fees are growing exponentially as debit card usage tripled from 2000 to 2005. These figures demonstrate the lack of understanding consumers have about the overdraft fee practices.

Many individuals assume financial institutions would reject a transaction for which there are insufficient funds, as they have in the past. Now, however, these institutions make expensive, short-term loans which cause individuals to unwittingly accumulate fees on mostly inexpensive purchases.

These fees have become so prevalent because they are extremely profitable for banks and credit unions. I fear the increasing margin of income generated from overdraft fees encourages these institutions to engage in questionable practices simply to generate more fees. Low income individuals are particularly vulnerable to the cycle of repeatedly using these costly loans, paying two dollars for every dollar loaned.

The responsible solution that is in the best interest of the consumer is to make them aware of when these fees will be incurred and give them a choice as to whether or not they want to proceed. Further, these fees need to be treated as what they are, extensions of credit. Doing so would ensure that these fees are fully disclosed and transparent.

For these reasons, I am an original cosponsor of Chairwoman Maloney's bill. H.R. 946 skillfully addresses these issues and would protect consumers by giving them detailed information on overdraft fees, the option to opt out of overdraft protection and the choice to discontinue transactions that would trigger these fees. Further, the bill would prohibit financial institutions from manipulating the order in which debits are processed in order to maximize fees. I thank the Chairwoman for this insightful legislation and I look forward to the testimony today.